

Minutes Of The Board Of Trustees City Of Cincinnati Retirement System February 3, 2005

The Chairman called the meeting to order at 1:30 p.m. with the following members present:

V. Daniel Radford, Chairman
William Moller, Secretary
Valerie Lemmie, City Manager
Charlie Luken, Mayor
Joe Harrison
Marijane Klug
Brian Pickering
Michael Rachford
Ely Ryder
Elliott Ruther (proxy for John Cranley)

Member/s Absent

John Bowling

The Chairman called for a motion to approve the minutes of the December 2, 2004 and the January 6, 2005 Board Meetings. The motion was made by Mr. Harrison, and seconded by Mr. Rachford and carried by the Board. The minutes were approved as prepared by the Secretary.

BENEFITS COMMITTEE

Mr. Harrison reported that the Benefits Committee met on January 27, 2005 at 1:30 p.m., in the Retirement Office, Room 240. Mr. Harrison reported that the Committee reviewed 3 applications for disability retirement and 1 was recommended to the Board for approval. Mr. Harrison presented the following report to the Board.

1. Application for Ordinary Retirement February 13, 2005: Total – 8

NO.	NAME	DEPARTMENT
38761	Charles Black	Health
40071	Douglas Wisher	University of Cincinnati
40512	Doborha Edwards	University of Cincinnati
40816	Dale Schwier	Hamilton County
40923	Carl Pieczonka	Hamilton County
42430	Daniel Tscheiner	Recreation
42641	Todd Fox	Fleet Services
59050	Edgar Pinkston	Buildings & Inspections

2. Application for Ordinary Death Benefits: Total - 3

NO.	NAME	DEPARTMENT
49520	Malcolm Adcock	Health
44383	Francis Farrell	University Hospital
61606	Ricki Hall	Public Services

3. Application for Retired Members Deaths: Total – 10

4. Application for Disability Retirement: Total 1

NO.	NAME	DEPARTMENT
49008	Charles Crumpley	Water Works

5. Application for Deferred Retirement Benefits: Total – 1

NO.	NAME	DEPARTMENT
50625	Amos McCall	MSD

Mr. Harrison moved that the Board accept the report of the Benefits Committee. The motion was seconded by Mr. Rachford and carried by the Board.

INVESTMENT COMMITTEE

Mr. Moller reported that the Investment Committee did not meet in January 2005.

SECRETARY'S REPORT

The Secretary submitted the following report:

1. Resolution for Enrollment of New Members – Total: 58
2. Resolution for Return of Contributions & Death Benefits– Total: 43
Amount: \$108,570.37
3. Resolution for Loans to Members – Total: 40 Amount: \$417,082.46
4. Report on Deaths of Pensioned Members – Total: 11
5. Report on Military Service Credit prior to Membership - 3

The Secretary submitted the following vouchers for payment:

PAYEE	AMOUNT
The Wall Street Journal – Subscriber services for John Walsh	\$259.00
All Star Personnel Services – Temporary Personnel Services	\$2,044.92
The Bank of New York – Custodial Fees from 7/1/04-9/30/04	25,985.55
ABS Business Products Inc. – Monthly rental base rate for copier	\$238.50
City of Cincinnati – Communications Technology for Telephone Services	\$457.00
International Foundation – Membership dues for Board Members	625.00
Squire, Sanders & Dempsey – Professional Services Rendered	\$9,429.36
The Community Press – Classified Ad Billing	\$256.50
Mae Consulting Inc. – Professional Services Rendered	\$300.00
Pieczonka – Plaque order for Board Member	\$89.00
Professional Awards & Design Inc. – Professional Services Rendered	\$676.74
All Star Personnel Inc. – Temporary Personnel Services	\$2,217.56
NCPERS – Registration fee for conference for Bd Members	\$590.00
Mercer Human Resource Consulting – Professional Services Rendered	\$48,647.00
Parman Group Inc. – Evaluation of Disability Applicants	\$749.50
NCPERS – Registration fee for Conference for Board Members	\$990.00
NELCO – Payment for 1099 Tax envelopes for pensioners	\$1,657.00
Business Information Solutions, Inc. – Storage of CRS files	\$75.03
All Star Personnel Inc. – Temporary Personnel Services	\$1,080.63
Deborah Shinall – Refund of Employee Contributions taken in error 1/11/05	\$94.79
Michelle Pierson – Refund of Employee Contributions taken in error 1/11/05	\$45.02
Ohio Police & Fire Pension Fund – Payment for prior service credit	\$60,393.25
Ohio Police & Fire Pension Fund – Payment for prior service credit	\$2,333.59
Ohio Public Employees Retirement System – Payment for prior service credit	\$24,604.82
Ohio Public Employees Retirement System – Payment for prior service credit	\$4,059.98

The Secretary reported that at the close of business January 31, 2005, there was in the Treasury to the credit of the Retirement System the amount of \$1,145,611.01

Asset Valuation:

- December 31, 2003: \$2.29 billion
- November 30, 2004: \$2.40 billion
- YTD Increase (Decrease): 4.76%

Current Asset Allocation: (Policy Objective)

- Domestic Equity: 52.2% (50%)
- International: 14.9% (13.5%)
- Fixed Income: 32.7% (33.5%)
- Alternative Assets/Treasury Cash: 1.2% (3%)

PENDING BUSINESS

Mr. Moller advised the procedures for appointing the Board's private sector member is for the Board to make a recommendation to the Mayor, who will then forward the recommendation on to City Council for approval. Mr. Moller also indicated that in the past, the Board has set up ad hoc selection committees to recruit and review potential candidates. Mr. Radford indicated that he would assign Board members to a selection Committee to help find a suitable replacement for Mr. Bowling.

Mr. Radford then recognized the many contributions made by Mr. Bowling in the six years he served as the citizen member of the Board, particularly the investment expertise that Mr. Bowling brought to the Board.

Mr. Radford began discussion on the motion that included a proposed plan to help secure the long-term financial solvency of the CRS. (The motion was voted on in the January Board meeting but failed to pass by a count of five votes in favor and four votes against the motion. Six votes are needed to pass a motion.)

Mr. Radford commented that the Board is responsible for investment of the CRS assets, but City Council is responsible for determining the level of benefits provided by the CRS. Mr. Radford believes the Board will be making a big mistake if it fails to recommend to City Council a plan to improve the financial health of the CRS. Mr. Radford stated that he is convinced the Board needs make some tough decisions now, and can't afford to wait five or ten years for the financial health to improve. Mr. Radford commented that a few of the other Ohio pension plans are now implementing drastic benefit changes because they failed in recent years to make the tough decisions that would improve their financial condition. Mr. Radford also indicated that if no changes are made to the current healthcare plan, the total contribution would have to increase by about 10%, which would have to be paid either by the active employees and/or the City.

Mr. Moller distributed the following motion for review and discussion:

We move that the following proposal be approved by the Cincinnati Retirement System Board for recommendation to the City Council to secure the long-term financial solvency of the Cincinnati Retirement System.

- 1) Restate actuarial value of assets to market value of assets as of 12/31/2003.
Thereafter, continue the asset value smoothing method currently in place;
- 2) Reduce assumed investment return from 8.75% to 8.25% including expenses;
- 3) Reduce funding target for health care liabilities from 100% to 80%;
- 4) Increase total payroll contributions from 18.0% of pensionable salary (11.0% employer contribution and 7.0% employee contribution) to 19.5% of pensionable salary. City Council would determine the distribution of the increase;
- 5) The retiree medical plan would be the same as the active AFSCME and non-representative management employee's plan, except for the protected group. (The protected group includes retirees who retired with a 2.0%/2.25% multiplier and are over age 65 (as of December 31, 2003 and in the future), disability retirees, and members who are receiving survivor death benefits). The protected group will continue to receive the current HMO and PPO medical plan services;

- 6) The “protected group” of retirees would pay the same monthly premium as all retirees (currently \$12.66 individual and \$34.98 family for 2005). All other costs for the “protected group” would not change;
- 7) The following out-of-pocket limits apply to the non-protected retirees subject to the 80/20 Health Care Plan:
 - Prescription drug coverage: \$775 single/\$1,550 family
 - Medical: \$1,050 single/ \$2,100 family (in-network)
\$2,100 single/ \$4,200 family (out-of network);
- 8) Appropriately reduce investment, administrative, and other expenses by approximately \$1 million to lower the total contribution of 20.1% needed under this proposal to the 19.5% contribution target.

I further move that the Board:

Distribute this motion to retiree and active CRS members and provide for a 30-day period to accept comments on the proposal from retiree and active members and taxpayers, as well as hold a public hearing on the proposal;

Direct staff to work with the Law Department to draft changes to the Municipal Code to embody the changes proposed;

Direct staff to develop the specific health care plan terms that will be offered;

Implement the new health care plan design at the earliest practicable date.

Mr. Ryder objected to not receiving the motion in advance of the Board meeting. Mr. Ryder also objected to the Board members not obtaining until two days ago the legal opinion that indicates City Council does have the authority to make changes to the CRS healthcare benefits. Mr. Moller indicated that he would have distributed the motion to Board members in advance of the meeting, but had to wait for some additional information from the CRS actuary, which was received just before the meeting, in order to complete the motion.

Mr. Moller explained that this motion was the same as the motion that the Board voted on at the January meeting, with one exception. Under point #7, there is now a \$1,550 family cap on out-of-pocket expenses for prescription drug coverage for the non-protected retirees. There was no family cap on this benefit for retirees in the previous motion and there is no family cap for this benefit for active employees.

Mr. Moller then moved that this motion, which includes a plan that would help secure the long-term financial solvency of the CRS, be approved by the Board. Mayor Luken seconded the motion.

Mr. Ryder asked if it is Mr. Moller’s intention the motion be advanced for a 30-day discussion period or if he was looking for substantive action today. Mr. Moller replied

that he is looking for substantive action today because the Board has now been dealing with this issue for many months, and the situation continues to get worse as time passes.

Mr. Rachford questioned if the Board has the authority to provide different medical benefits to different classes of retirees, and how the Board could grant retirement benefits that are better than the benefits provided to active employees. Mr. Moller stated that the Board does not have the authority to determine the level of medical benefits provided by the plan, but is able to make recommendations to City Council regarding the level of medical benefits. In the end, it is up to City Council to set the retiree medical benefits.

Mr. Pickering asked for a clarification on the medical benefits offered to members who retired under the 2.0/2.25 formulas. Mr. Moller indicated that the members who retired under those formulas and are over age 65 would continue to get their current medical benefits. The only change is that they would be required to pay the same monthly premium as the other retired members. If the retired member from the 2.0/2.25 group is under age 65, they will get the same medical benefits as the non-protected group until they reach age 65, at which time they can return to the current medical plans.

Mr. Denny Davis, a member of the CRS who retired in 2000, addressed the Board with his concerns regarding the increased healthcare costs being imposed on the unprotected group of retirees. Mr. Davis commented that retirees need “certainty” with their financial matters, and the CRS defined benefit plan has always provided a certainty about the retirement benefits that would be provided. Mr. Davis stated that in its’ 73 year history, the CRS has never reduced benefits. It has, in fact, had a long history of increasing benefits. Mr. Davis mentioned that a 1960 retiree would have received seven cost-of-living adjustments, a 1978 retiree would have received a 25% increase when their multiplier was increased from 1.6 to 2.0, and 1993 retirees were given between 3 years and 5 years additional service credit under the “early-out” program. Mr. Davis also commented that retirees are given a letter upon retirement that indicates medical benefits would be provided by the CRS. Mr. Davis indicated that the CRS should live up to their side of the bargain, particularly since the decision to retire, and the selection of an option, is irrevocable by the retiree.

Mr. Davis also encouraged the Board to use the most recent financial data available when making decisions that will have such a large financial impact on a select group of retirees. Instead of using 12/31/2003 data, it would be prudent for the Board to base their decisions on 12/31/2004 data, which was a favorable year with investment returns around 10%. Mr. Davis also commented that reducing benefits to retirees should be looked at only as a last resort in order to make the fund solvent. Mr. Davis commented that once tradition is broken and retiree benefits are reduced, similar reductions are likely to occur in the future and current employees will have a difficult time evaluating their expected pension benefits. Mr. Davis also suggested that changes to the medical plan should only affect future retirees, since they could work extra years in order to meet the financial burden created by the increased healthcare costs.

Mr. Davis said, among the he most serious concerns of retirees, is the tying of retiree medical benefits to active employees, and this amounts to taxation without representation. Mr. Davis reminded the Board that current employees have the ability to negotiate their benefits, and retirees have no bargaining position. It is feasible that

employees could negotiate reduced healthcare benefits in favor of some other benefit, further adversely affecting retirees. He also stated that making these healthcare changes to a select group of retirees would have minimal impact on the fund. According to his calculations, the financial impact of these changes would be about one-tenth of one percent of the \$2.3 billion fund. Mr. Davis said the Board should not be willing to break their 73-year tradition of assurances to retirees for one-tenth of 1% return on the fund.

Mr. Ryder commented that he is disappointed that the Board was not able to work together and reach a compromise on this issue. Mr. Ryder said he finds it distasteful that the Board is segregating retirees and would like to continue working on this issue. He indicated that if the proposed changes were adopted, he would like to see section 203-121 of the C.M.C. amended to disallow any future changes to retiree medical benefits. Mr. Harrison and Mr. Rachford agreed that the Board should take additional time so they could do a thorough job evaluating the issue.

Mr. Rachford stated that everyone is well aware that healthcare costs are rising rapidly. He encouraged the retirees to determine how much they could pay and give the Board some of their own options for improving the financial strength of the plan.

Mr. Rachford also commented that he gets upset when the CRS is compared to other Ohio pension funds because they mismanaged their money and the CRS did not. Because CRS funds were well managed, the CRS has given money back to taxpayers through the reduced employer contributions. Mr. Radford replied that the problems the other funds face are not a result of poor investments, but rather a result of delays in taking action when their fund faced difficulties. Mr. Radford stated that the Board is not acting in good faith if they sit back and make the same mistakes that other funds have made.

After discussion, the motion passed by a vote of six votes in favor and four against. Mr. Moller commented that before the motion is referred to City Council, the Board will conduct a public hearing on the proposal in order to get input from active members, retirees, and taxpayers as each of these groups has a stake in this issue. The Board will also accept written comments on the proposal for a period of 30 days.

After the motion passed, Mr. Kevin Shepard, a retired CRS member, then spoke to the Board. Mr. Shepard commented that these changes would seriously impact not only the retirees but their families as well. He urged the Board to seriously consider the impact their decisions would have on the financial well being of the retirees and their family members who also depend on the benefits provided by the CRS.

ADJOURNMENT

Upon request of the Chairman for a motion to adjourn, the motion was made by Mr. Luken, seconded by Ms. Lemmie and carried by the Board. The meeting was adjourned at 2:45 p.m.